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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
2000 Biennial Review—	)	CC Docket No. 00-199
Comprehensive Review of the Accounting	)	
Requirements and ARMIS Reporting	)	
Requirements for Incumbent Local	)	
Exchange Carriers: Phase 2 and Phase 3	)	

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COMMENTS OF AT&T CORP.

Pursuant to Section 1.415 of the Commission's rules, AT&T Corp. ("AT&T") submits these comments on the Phase 2 issues raised in the Commission's Notice of Proposed Rulemaking (NPRM), FCC 00-364, on accounting requirements and ARMIS reporting for incumbent local exchange carriers (LECs), released October 18, 2000 in the above-captioned docket.

Section 11 of the Communications Act requires the Commission, in every even-numbered year beginning with 1998, to review all regulations that apply to the operations and activities of any provider of telecommunications services and "determine whether any such regulation is no longer necessary in the public interest as the result of meaningful economic competition between providers of such service." 47 U.S.C. § 161(a)(2). In this Biennial Review, the Commission proposes to eliminate a number of accounting and reporting requirements that currently apply to incumbent LECs.

In general, however, there is no "meaningful economic competition" for the incumbent LECs' services that would justify the removal of any of these requirements, and the Commission's NPRM does not present any evidence of such competition. Indeed, incumbent

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LECs still control more than 93 percent[1] of all access lines in the United States, and an even higher percentage of residential lines.[2] Although competition is growing, the vast majority of consumers, especially residential consumers, do not have competitive alternatives. Incumbent LECs also continue to dominate the access market. Interexchange carriers still purchase the vast majority of access services from the incumbents, and even the access services they purchase from new entrants are often predominantly resold services of the incumbent.[3]

As a result, the Commission should reject most if not all of these proposals. Elimination of the requirements to report this accounting and ARMIS data would deprive the Commission and the industry of vitally important data that is still necessary and essentially irreplaceable in a wide variety of regulatory contexts.

Chart of Accounts. The Commission should soundly reject USTA's sweeping proposal to eliminate Class A accounts entirely, and to use Class B accounts for all carriers. NPRM ¶ 17. The Class A carriers continue to have overwhelming market power, and together these carriers control the vast majority of access lines in the United States. Because the vast size and scope of these carriers' operations, the Commission should continue to require the more detailed accounting at the Class A level that it has always deemed necessary. The Commission's NPRM does not even suggest that there is any "meaningful economic competition" that would justify elimination of these accounting and reporting requirements under Section 11.

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[1] FCC Local Competition Report, released December 4, 2000, at 1.

[2] *Id.* Whereas 60 percent of CLEC lines serve medium and large business customers, these same customer sets constitute only 20 percent of ILEC lines.

[3] *See Petition of U S WEST Communications, Inc. for Forbearance from Regulation as a Dominant Carrier in the Phoenix, Arizona MSA*, Memorandum Opinion and Order, CC Docket No. 98-157 *et al.*, 14 FCC Rcd. 19947, ¶ 28 (1999).

Indeed, the Commission and the industry continue to use this publicly reported information at the Class A level of accounting detail in interstate tariff investigations, in identifying cost-shifting and cost misallocations, and in many other aspects of the Commission's regulation of these carriers, and elimination of those reporting requirements would be entirely inappropriate. Even eliminating the Class A accounts the Commission proposes to eliminate in Appendix 3 of the NPRM would strip out vital detail on $105 billion of monopoly revenues controlled by the largest carriers. These carriers would simply report total local, total toll, and total miscellaneous revenues. There would no longer be any detailed reporting on local and toll private line revenues, basic area service revenues, nonrecurring local and vertical service revenues, wireless revenues, carrier billing, among other items. Even more importantly, there would be no reporting of S,G&A expenses. Under such circumstances, it would be impossible for regulators or the industry to perform any meaningful cost benchmarking analysis of the incumbents' operations.

In addition, the FCC's universal service model and other public proxy models, such as the HAI model, rely extensively on the sub-major account reporting in ARMIS. *See* NPRM ¶ 18 & n.38 ("we note that there may be a continuing need for network plant and related accounts at the Class A level in order to maintain and use the universal service model we utilize in administering the universal service high cost fund for non-rural carriers"). For example, the models rely on the plant-specific cable and wire individual accounts to create expense-to-investment ratios, which are then applied to modeled investments. Eliminating the requirement that LECs publicly report such information would cripple the public's ability to review the development of future enhancements to the models. Indeed, the incumbent LECs would be the only parties that possessed the relevant information and who could intelligently comment upon any changes in the models. The incumbents already have an advantage, because they possess substantial detail behind the numbers they publicly report in ARMIS and have a measure of control over how they report their ARMIS data; eliminating Class A reporting altogether would effectively cut the rest of the public out of the process completely.

Moreover, the states frequently use ARMIS data in determining the rates for unbundled network elements (UNEs). NPRM ¶ 19. As the Commission notes, "Part 32 organizes telecommunications costs in a manner that allows a logical mapping of these costs to telecommunications rate structures." *Id.* Part 32 also provides a useful uniformity across states, which allows "state regulators to compare and benchmark the UNE costs and rates of carriers operating in various states," which also "benefits carriers operating in more than one jurisdiction." *Id.* For all of these reasons, the Commission should retain Class A reporting.

Additional USTA Proposals. The Commission should squarely reject USTA's proposals to eliminate the detailed reporting of property record additions, retirements, and recordkeeping. NPRM ¶ 27. As the Commission is well aware, recent audits have uncovered billions of dollars worth of phantom assets on the LECs' books, and therefore detailed reporting of the LEC's property record additions and retirements remains vitally necessary. *See, e.g., 1998 Biennial Review, et al.*, Further Notice of Proposed Rulemaking, 15 FCC Rcd. 6588, ¶ 15 (2000) ("The CPR audits found that, combined, these carriers could not account for approximately $5 billion of central office equipment. . . .").

The Commission should also reject USTA's proposal to eliminate the requirement of notification and approval to implement new accounting standards established by the Financial Accounting Standards Board (FASB). *See* NPRM ¶ 27. Mere compliance with GAAP, and the public debate surrounding GAAP changes, do not ensure compliance with the Commission's rules and ratemaking objectives which are premised on the Communications Act's mandate to the Commission to ensure that rates are just, reasonable and nondiscriminatory. The implementation of a GAAP change, without approval, would in some cases permit the LECs, at least the rate-of-return carriers, to dramatically increase their access rates and possibly trigger a lower formula adjustment for the price cap companies. Indeed, without prior scrutiny, price cap LECs may even be able to effect an upward exogenous adjustment, contrary to the Commission's well-established rule that accounting changes that do not affect a LEC's cash flow – such as SFAS 106 (OPEB) – cannot be given exogenous treatment. *See Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, First Report and Order, 10 FCC Rcd. 8961, ¶¶ 293-318 (1995) ("we will limit exogenous cost treatment of cost changes resulting from changes in USOA requirements to economic cost changes caused by administrative, legislative, or judicial requirements beyond the control of the carriers which are not reflected in the GDP-PI," and "[w]ithout a cash flow impact, carriers will not be able to raise PCIs to recognize an accounting change").

SFAS-116 and Expense Limits. The Commission's separate proposals to adopt FASB's SFAS-116 (Accounting for Contributions) for federal accounting purposes (NPRM ¶¶ 25-26) and to increase the expense limits for certain items (NPRM ¶¶ 40-42) are both premature. Both changes would result in an unwarranted increase in access charges. With respect to the price cap LECs, under the CALLS Plan increased booked expenses stemming from these changes could result in higher rates, for example, the reappearance of the Carrier Common Line (CCL) charge, and may result in a lower formula adjustment. Similarly, these two changes will lead rate-of-return LECs to increase their access charges, at a time when the rate-of-return LECs' access charges are approximately five times the price cap LECs'.

The Commission therefore should not adopt these changes at this time. Rather, the Commission should allow the CALLS Plan to be fully implemented, and it should complete an access reform proceeding for rate-of-return LECs. Adoption of such changes now, without a thorough understanding of the impact they would have, would serve only to complicate implementation of the CALLS Plan and the reform of rate-of-return LECs' access charges.

In all events, if the Commission does adopt SFAS-116, it should not allow any increased expenses to be treated as an exogenous adjustment for price cap companies. *See* NPRM ¶ 26. Contributions are entirely within the control of the LEC, and any increase in reported costs based on a pledge in future years does not affect the LEC's cash flow. As discussed above, under established Commission precedent, exogenous treatment of such increases would be inappropriate. *See Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, First Report and Order, 10 FCC Rcd. 8961, ¶¶ 293-318 (1995). Similarly, if the Commission does implement the increases in expense limits, it should apply that change solely to new acquisitions and require all LECs to phase out their embedded investment based on current depreciation schedules. *See* NPRM ¶ 42. Any attempt to amortize these accounts more rapidly could require dramatic increases in access charges over the near term.

Affiliate Transactions. The Commission should also reject USTA's suggestion that the Commission amend Rule 32.27(d) to decrease the threshold of external sales from 50 percent to 25 percent for use of prevailing price in valuing affiliate transactions. NPRM ¶ 29. Although USTA claims such a rule change "would be more consistent with a more competitive market" (*id.*), the NPRM presents no evidence that "meaningful economic competition" has in fact increased such that the Commission could relax the threshold for use of prevailing price. To the contrary, the 50 percent threshold remains necessary to ensure that the LECs use the prevailing price with their nonregulated affiliates (rather than the higher or lower of cost or fair market value) only when there is a substantial external market.[4]

ARMIS Reports 43-01, 43-02, 43-03 and 43-04. The Commission proposes a variety of revisions to the ARMIS Reports 43-01 (Annual Summary Report), 43-02 (USOA Report), 43-03 (Joint Cost Report) and 43-04 (Separations and Access Report), and the Commission should generally reject them. NPRM ¶¶ 56-63. Again, the Commission does not even attempt to tie the proposed changes to the statutory standard – *i.e.*, the Commission has pointed to no evidence of "meaningful economic competition" that would justify broad streamlining of these reporting requirements. These financial reports continue to provide essential information and should not be eviscerated.

In all events, if the Commission does adopt these proposals, until the Commission completes an access reform proceeding for rate-of-return LECs, however, the Commission should continue to require separate reporting of Billing and Collection expenses, because the Commission has not yet implemented for rate-of-return LECs the General Support Function ("GSF") rule changes that it adopted for price cap LECs in 1997. *Access Charge Reform, et al.*, CC Docket Nos. 96-262, *et al.*, Third Report and Order, 12 FCC Rcd. 22430 (1997).

ARMIS Reports 43-07 and 43-08. The Commission also proposes to streamline the reported information contained in the ARMIS 43-07 (Infrastructure Report) and the 43-08 (Operating Data Report). NPRM ¶¶ 64-80. The Commission should generally reject these proposals as well. As noted above, these carriers retain market power, and the NPRM provides

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[4] In addition, the Commission should reject USTA's proposal to eliminate Rule 64.901(b)(4), which requires the LECs to allocate the costs of central office equipment and outside plant investment between regulated and nonregulated activities based on a three-year forecast of the relative regulated and peak nonregulated usage. NPRM ¶ 45. Repeal of the rule would permit LECs to recover nonregulated costs from regulated rates, and USTA's bare assertion that the rule is "burdensome" does not satisfy Section 11's standard for repeal.

no evidence that "meaningful economic competition" has eliminated the need for incumbent LECs to publicly report this important information. *See* 47 U.S.C. § 161.

Indeed, with the possible emergence of competition in local markets, the availability of such performance data at this time is even more critical than previously as LECs and new entrants, including IXCs that enter local markets, begin to compete. For example, publicly reported data concerning call set-up time is important for interexchange carriers seeking to monitor the performance of the LECs in the provision of essentially monopoly access services. *See* NPRM ¶ 75 (proposing to eliminate such reporting).[5] Similarly, detailed reporting on Interoffice Working Facilities (¶ 72), Loop Plant-Central Office Terminations (¶ 73), Other Transmission Facility Data (¶ 74), and Additions and Book Costs (¶ 76) provide information that is essential for benchmarking and monitoring purposes.

Nor does the Commission's recent efforts to establish new reporting requirements for broadband deployment in any way obviate the need for these ARMIS reports filed by *incumbent* LECs. As the Commission itself notes, the broadband reporting requirements were specifically designed to be complementary to ARMIS reports, not to replace them. NPRM ¶ 65. The Commission should *not* attempt to capture information reflected in ARMIS reports in the wholly different context of broadband data gathering. *See, e.g.*, NPRM ¶¶ 66, 69-70, 72-74.

In addition, the Commission should not address issues relating to *CLEC* reporting requirements in the context of this biennial review of reporting requirements that apply only to incumbent LECs. Section 11 is a purely deregulatory provision. While it provides authority to

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[5] Moreover, many of USTA's proposals would eliminate the only comprehensive source of LEC operating data at the study area level. Most state proceedings require data at the study area level, and virtually all proxy models use data at the study area level. Therefore, adoption of these proposals would deal all parties other than the incumbents a crippling blow in their ability to participate in such proceedings.

eliminate or modify existing regulations where competitive conditions warrant, it provides no authority to impose new regulations on new entrants. Although no new reporting requirements for CLECs are necessary, to the extent that the Commission wishes to examine such issues, it should examine them in a *coordinated* manner in a single proceeding, rather than on a piecemeal basis (partly in this Biennial Review, partly in the Biennial Review on Service Quality (CC Docket 00-229) and partly in the Local Competition Broadband Reporting proceeding (CC Docket 99-301) or other proceedings).

Relief for Mid-Sized Carriers. The Commission proposes a variety of measures that would reduce reporting requirements for "mid-sized" LECs, including: (1) treating such carriers as Class B carriers (thus eliminating all CAM requirements and ARMIS filings for such carriers) or, in the alternative, (2) raising the indexed revenue threshold for Class A carriers from $114 million to $200 million, which would have the effect of reclassifying several mid-sized Class A carriers as Class B carriers and leaving the remaining carriers with minimal ARMIS and CAM filing requirements. *See* NPRM ¶¶ 80-86.

These rule changes would be wholly inappropriate. As the Commission notes, it has already reduced the reporting requirements for mid-sized LECs.[6] Aside from that, the Commission previously found when it implemented the $112 million indexed threshold for Class A treatment, "for carriers with annual revenues in excess of this threshold . . , the benefits to ratepayers outweigh the cost to those carriers of requiring compliance" with CAM cost allocation and ARMIS requirements.[7] More recently, the Commission concluded that ITAA had

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[6] NPRM ¶ 80 (citing *ARMIS Reductions Report and Order*, 14 FCC Rcd. at 11449, ¶ 12, and *Accounting Reductions Report and Order*, 14 FCC Rcd. at 11406-07, ¶¶ 21-22).

[7] *Implementation of the Telecommunications Act of 1996: Reform of Filing Requirements and Carrier Classifications*, CC Docket No. 96-193, Order and Notice of Proposed Rulemaking, 11 FCC Rcd. 11716, ¶¶ 7-12 (1996).

failed to demonstrate that forbearance from these CAM reporting requirements was warranted under the standards of Section 10 of the Act.[8] In the NPRM, the Commission does not point to any evidence suggesting that conditions have changed in the interim such that wholesale abandonment of these requirements is now in the public interest.

Moreover, the notion that mid-sized LECs have reduced opportunities for cost-shifting between nonregulated and regulated services is simply wrong. *See* NPRM ¶ 80. To the contrary, mid-sized LECs actually have a higher percentage of nonregulated services than the larger LECs. The 1999 ARMIS reports indicate that the "Large LECs" reported nonregulated operating expenses as a percentage of total expense ranges from a low of 7.53 percent in U S WEST (now Qwest) to a high of 14.8 percent for GTE (now Verizon). *See* 1999 ARMIS Preset Reports Regulated/Nonregulated Revenues and Costs line 2. Mid-sized LECs often have relative amounts of nonregulated operations that exceed the relative amounts of nonregulated operations reported by the large LECs. For example, Sprint, Puerto Rico and Aliant report nonregulated operating expenses that respectively comprise 16.16, 16.84 and 12.61 percent of their total operating expenses. *See* 1999 ARMIS 43-03 line 750. Nor are the "mid-sized" LECs small or insignificant. For example, Sprint in 1999 operated in 18 states, served over 6.9 million access lines, and generated in excess of $4.1 billion in regulated revenues.[9] For all of these reasons, the radical deregulation of reporting requirements for mid-sized LECs proposed in the NPRM is unwarranted.

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[8] *See 1998 Biennial Regulatory Review - Review of Accounting and Cost Allocation Requirements*, Report and Order in CC Docket No. 98-81, Order on Reconsideration in CC Docket No. 96-150, Fourth Memorandum Opinion and Order in AAD File No. 98-43, FCC 99-106, 14 FCC Rcd. 11396 (1999); 47 U.S.C. § 160.

[9] Billable access lines are taken from Line 2150 of the ARMIS 43-01 Report, Regulated Operating Revenues are found at line 530 of the ARMIS 43-03 Report. The count of states Sprint operates in is per the NECA Universal Service Study Area Data 1998 Study Area Detail for all Exchange Carriers, October 1, 1999.

CONCLUSION

For the foregoing reasons, the Commission should not adopt the rule changes proposed in the NPRM.

Respectfully submitted,

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